Issue 146

NERA
Economic Consulting

Reporting on energy regulation issues around the world

July 2011

Global Energy Regulation

Contents

EUROPE

UK

Ofgem Announces £1m Penalty For British Gas Business For Misreporting Under Renewables Obligation

Ofgem announced a £1 million penalty for British Gas Business after the regulator's investigation found that the company had misreported the amount of electricity supplied under the government's Renewables Obligation. Ofgem said the error was caused by British Gas's incorrect interpretation of the reporting requirements and the company's inadequate procedures.
Decc.gov.uk, *01/07/11*

DECC Releases White Paper On Electricity Market Reform

The UK Department of Energy and Climate Change (DECC) published the long awaited White Paper on "Electricity Market Reform: keeping the lights on in the cheapest, cleanest way". According to DECC, the white paper "sets out key measures to attract investment, reduce the impact on consumer bills, and create a secure mix of electricity sources including gas, new nuclear, renewables and carbon capture and storage". Alongside the paper, DECC also published "The Renewables Roadmap," which outlines a plan of action "to accelerate renewable energy deployment—to meet the target of 15% of all energy by 2020—while driving down costs." There are four main components of the package: (1) the Carbon Price floor, as previously announced in the Budget 2011; (2) introduction of new long-term contracts for renewable generation capacity, essentially fixing the price renewable generation capacity receives in advance; (3) an Emission Performance Standard set to 450g/KWh; and (4) a capacity mechanism on which the details are yet to be outlined. The government sees the publication of the White Paper as the first stage of the reform process and intends to legislate for the key elements of the package in the second session of the current Parliament, which starts in May 2012.
Decc.gov.uk, *12/07/11*

Ofgem Grants Offshore Transmission Owner Licence For Gunfleet Sands Wind Farm And Begins Tender Process For Lincs Wind Farm

Ofgem announced that TC Gunfleet Sands OFTO Limited (Transmission Capital Partners) had secured a licence to operate the high-voltage link to the Gunfleet Sands wind farm. The acquisition results from the competitive tender for offshore links under the Offshore Transmission Owner (OFTO) regime run by Ofgem. It is the second licence which Ofgem has awarded under the regime.
Decc.gov.uk, *19/07/11*

Ofgem Fines British Gas Fined £2.5 Million For Failing Customers Who Complain

Ofgem announced a £2.5 million penalty for British Gas after they found that the company had breached regulations that set standards for the way energy companies handle customer complaints. Ofgem said British Gas has since taken action to improve its complaint handling systems and to ensure it is compliant with Ofgem's regulations. The regulator is currently also investigating Npower and EDF Energy over their complaint handling; and Scottish Power, Scottish and Southern Energy, EDF Energy, and Npower over mis-selling. It is also undertaking two investigations into Scottish Power for potentially misleading marketing and over the difference between its Standard Credit and Direct Debit Tariffs.
Decc.gov.uk, *27/07/11*

Austria

Parliament Approves Green Electricity Act

Austria's parliament, the Nationalrat, approved the new Green Electricity Act (Ökostromgesetz) by a two-thirds majority. The economy and energy minister said that investment in green technologies would amount to €12,000 million by 2020 and would create thousands of green jobs. The share of renewable energy in electricity consumption would increase from 68% now to 85% in 2020.
The annual rise in funding for electricity from renewable energy sources would increase from €21 million to €50 million, implying that annual financing would rise from about €350 million in 2011 to €550 million in 2015. That subsidy would be reduced by €1 million every year to account for technological developments and to avoid overcompensation. The minister said the goal was for subsidies to approach market prices and achieve "network parity" in 2015.
Bundesministerium für Wirtschaft, Familie und Jugend, 07/07/11

Belgium

Regulator Approves Black Start Code

The Belgian federal energy regulator, the Commission de Régulation de l'Electricité et du Gaz (CREG), has been asked by the Belgian electricity TSO, S.A. Elia System Operator, to approve its revision of the black start code, as foreseen by the royal decree of 19 December 2002. The black start code ("code de reconstitution") sets down the operational procedure to be followed when the whole system or part thereof has to be restarted. CREG approved Elia's proposal saying that it was a noticeable improvement and that this process of improvements had to continue. CREG took its decision on 26 May 2011, but has only now published it on its website.

Commission de Régulation de l'Electricité et du Gaz website, 27/07/11

European Union

European Commission Gives Green Light To Romanian Green Certificates For Renewable Energy

The European Commission approved Romania's plan to support the production of energy from renewable energy sources through a system based on green certificates. Producers of electricity from wind, hydro, biomass, landfill gas, sewage plant treatment gas, or solar sources will be entitled to receive a green certificate for each MWh produced. Electricity retailers will have to acquire green certificates, and will be subject to a penalty if they fail to comply with their obligations. The money collected from these penalties is to be redirected to the Romanian Environmental Fund. The deadline to apply for this remuneration under this scheme has been set at 31 December 2016.

EU Commission website, 13/07/11; Deleanu News, 25/07/11

European Commission Launches Investigation Against Czech Utility CEZ For Anticompetitive Behavior

The European Commission announced that it has opened formal antitrust proceedings against CEZ A.S., the largest power producer in the Czech Republic, for alleged abuse of dominant position in the wholesale electricity market. The Commission argues that the utility may have abused its dominant position by obstructing the entry of new electricity producers through hoarding transmission network capacity.

European Commission press release, 15/07/11

France

Nuclear Safety Authority Gives Green Light To Fessenheim 1

The ministers for environment, energy, and the economy have acknowledged the advice issued by the nuclear safety authority (Autorité de sûreté nucléaire, or ASN) to allow continued operation of reactor No. 1 of the Fessenheim nuclear power plant for another 10 years, subject to complying with additional requirements. Fessenheim No. 1 is the second reactor, after Tricastin No. 1, to have gone through a safety review 30 years after commissioning. ASN said that its recommendation did not take into account an additional safety review initiated after Fukushima, the conclusions of which are expected at the end of the year.

Ministère de l'Économie, des Finances et de l'Industrie website, 04/07/11

Regulator Approves Connection Of Dunkerque LNG Terminal And New Connection With Belgium

The French energy regulator, the Commission de Régulation de l'Énergie (CRE), approved the connection of the Dunkerque LNG terminal to the French gas network and a new interconnection with Belgium. The French gas TSO, GRTgaz, had asked the CRE to approve the investments necessary to connect the Dunkerque terminal to the French network, a new interconnection from the Dunkerque LNG terminal to Belgium at Veurne, and an interconnection between PEG Nord gas market in France and the Belgian gas market. GRTgaz also asked for a 3% premium for 10 years. CRE approved the planned investments necessary for the connection with the French network and the new interconnection with Belgium. The investments would fall under a new period of incentive regulation starting in 2013. The CRE also said that the premium of 3% over 10 years would only apply to investments that created capacity between the PEG Nord and the Belgian market that was accessible to all market players. The CRE also published some indicative tariffs and a methodology for rolling them forward. GRTgaz and Fluxys plan to launch a binding open season in September 2011 and the CRE approved the general allocation rules of this phase.

Commission de Régulation de l'Énergie website, 12/07/11

Regulator Gives Go Ahead To Smart Meters “Linky”

The French energy regulator, the Commission de Régulation de l’Énergie (CRE), approved the general roll-out of the smart meter known as “Linky”. French distribution system operator ERDF tested Linky for more than a year with 250,000 of its clients and the CRE made its decision based on the results of this trial. CRE said that the roll-out of Linky would be financially neutral, as initial investments of about €4,000 million (in 2010 prices) would be offset by future savings in operating costs. CRE also mentioned that one benefit of a rapid roll-out would be to encourage the international adoption of French standards and norms.

Commission de Régulation de l’Énergie website, 18/07/11

Regulator Recommends Smart Gas Meters

The French energy regulator, the Commission de Régulation de l’Énergie (CRE), has recommended that the energy minister approve a smart gas meter project proposed by French gas distribution system operator, GrDF. A first construction/ trial phase would start in mid-2011 and the general roll-out would take place between 2014 and 2020. CRE said that the costs to GrDF of the smart meters would be taken into account in tariffs for the next period (“ATRD4”), which will start in July 2012. Costs to GrDF that were not anticipated in current tariffs will be included in the operating costs covered by ATRD4 tariffs.

Commission de Régulation de l’Énergie website, 21/07/11

Germany

Federal Court Takes Decisions On German Incentive Regulation

The German federal court, the Bundesgerichtshof (BGH), delivered two judgements on the incentive regulation decree (Anreizregulierungsverordnung, or ARegV). Network operators and the German energy regulator, the Bundesnetzagentur (BNetzA), had disagreed over a number of points in the ARegV relating to the calculation of revenue caps. The BGH found the return on debt to be appropriate and also approved the calculation of the lump-sum investment allowance of 1% per year under ARegV article 25. However, the BGH ruled in favour of network operators on a number of other points.
When determining the initial value of allowed costs, the BNetzA must take into account judicial decisions taken in the meantime. The general productivity factor (x-factor) of ARegV article 9(1) has no judicial basis in article 21a of the German energy law (EnWG) and is therefore inadmissible. The BGH instructed the BNetzA to recalculate the inflation adjustment by taking account of the difference between the change in the networks’ input (purchase) prices and consumer price inflation, which would take the place of the general

productivity factor. Moreover, the "expansion factor" in ARegV article 10, which accounts for changes in the volume supplied, is to be applied from the first year of the regulatory period. Finally, the BGH ruled that network operators may apply for an adjustment in the revenue cap under the hardship clause ARegV article 4(4) if their costs increased unexpectedly from the cost base year 2006. The BGH took its decisions on 28 June 2011.
Bundesgerichtshof website, 28/06/11

Conference Held By Regulator And The European Power Exchange To Discuss Recent Changes In German Energy Policy

In response to recent changes in German energy policy, German networks regulator, the Bundesnetzagentur (BNetzA), and the European Power Exchange held a conference with experts from the energy business, science, and administration to discuss upcoming challenges. The goal of the conference was to identify ways of optimising the existing renewable energy equalisation system and, at the same time, to develop options for transferring the marketing of renewable energy from the transmission system operators (TSOs) to one or more independent third parties. The conference served as a prelude for a report by the BNetzA. The model proposals will be further developed based on the results of the conference and debated in autumn.
Bundesnetzagentur website, 02/07/11

Upper House Approves Energy Laws

Last month, Germany's lower house, the Bundestag, approved a number of laws intended to achieve the "energy turnaround" (Energiewende). Germany's upper house, the Bundesrat, approved most of these laws on 8 July. The Bundesrat only refused to approve the draft law offering tax relief for renovation of buildings, principally because of the fall in tax revenues. The Bundesrat approved the following laws and amendments: (1) an amendment to the Renewable Energy Act (Erneuerbare-Energien-Gesetz, EEG) to more than double the share of renewable energy in electricity production from 17% to at least 35%; (2) an amendment to the Nuclear Act (Atomgesetz) phasing out nuclear power; (3) an amendment to the Energy Act (Energiewirtschaftsgesetz) and the Acceleration of Network Expansion Act (Netzausbaubeschleunigungsgesetz) to facilitate the expansion of electricity networks; (4) a Planning Acceleration Act (Planungsbeschleunigungsgesetz) to ensure the rapid expansion of additional capacity; and (5) an amendment to the financing of the Energy and Climate Fund, so that it will be partly financed by the auction of carbon permits from 2013.
Bundesregierung website, 08/07/11;
Bundesministerium für Wirtschaft und Technologie website, 08/07/11

Parliament Approves Draft Carbon-Dioxide Storage Law

The Bundestag (Germany's lower house) has approved the draft Carbon Dioxide Storage Act (Kohlendioxid-Speicherungsgesetz). As a first step in the development of Carbon dioxide Capture and Storage (CCS) technology, the German government said, it was necessary to test whether there were rock formations suitable for long-term storage of the gas. If successful, CCS would allow the continued use of coal to produce electricity. Without the capture of carbon dioxide (CO2), coal was one of the most harmful forms of energy for the climate. The government had therefore drafted a law that would regulate, among other things: (i) the testing of bedrock as a site for permanent storage; (ii) the establishment and operation of CO2 storage sites; (iii) the closure and aftercare of CO2 storage sites; and (iv) transfer of the storage sites to the public sector after a 30-year period. The draft law still requires the approval of the Bundesrat.

Bundesregierung website, 08/07/11

Regulator Launches Public Consultation On A Scenario Framework For The Future Power Supply Structure In Germany

The German networks regulator, the Bundesnetzagentur (BNetzA), launched a public consultation on a "scenario framework" submitted by the four German transmission system operators (TSOs) on the future structure of power supply in Germany. Expansion requirements will be determined on the basis of this structure through the following process. The first step will be defining a 10-year network development plan. This plan will set out the actions required for optimisation, reinforcement, and expansion of the network over the next 10 years. In a second step, the BNetzA will present the network development plan to the German federal government as a draft Federal Transmission Systems Requirements Plan. The government will, in turn, submit it to the federal legislature. The BNetzA's approval of the TSOs' proposed scenario framework will be dependent on the results of the public consultation. The consultation process for the scenario framework for the 2012 national network development plan runs from 19 July 2011 to 29 August 2011.

Bundesnetzagentur website, 19/07/11

Ireland

Regulator Approves 22% Gas Price Rise For Bord Gáis.

The Commission for Energy Regulation (CER) announced that it has made a provisional decision to allow Bord Gáis an increase in gas prices of at least 22% from the beginning of October. Bord Gáis Energy had initially applied for a 28% rise in its residential gas tariffs, following a rise in wholesale prices since the start of the year. The average domestic gas bill is likely to increase by about €160 a year. The ongoing problem of bad debts, and the associated costs of managing payments, was included as a factor in the company's submission to the regulator, but CER refused to allow this claim. A public consultation will review Bord Gáis Energy's costs and the regulator will monitor the wholesale gas markets during this consultation period.

Business and Finance Daily News Service, 28/07/11; The Irish Times, 29/07/11

Netherlands

Do Speculators And Hedge Funds Affect Pricing On The TTF?

The Netherlands Authority for the Financial Markets (AFM) and the Dutch Competition Authority (NMa) found no evidence that the past behaviour of hedge funds and speculators on the Title Transfer Facility (TTF) led to higher prices or inexplicable movements in prices. The TTF is the virtual marketplace for Dutch gas trading in the Netherlands. One important explanation, according to the regulators, is that speculators and hedge funds operate to a very limited extent on the TTF gas hub because, as a "virtual" hub, it trades mostly in physical gas.

NMa website, 01/07/11

Consultation On The Electricity Act And Gas Act

The Dutch Competition Authority (NMa) is consulting market participants and industry associations on the operation of the Electricity Act 1998 and the Gas Act 2000 (as amended). Article 80 of the Electricity Act and Article 66 of the Gas Act provide the legal basis for the evaluation of these two laws, under which the NMa is responsible for carrying out this evaluation. The evaluation is partly focused on the tariff systems of network operators, conditions imposed on energy suppliers, and process of drafting codes. Parties and industry associations have until 12 August 2011 to respond.

NMa website, 01/07/11

Feasibility And Enforceability Study Of Draft Regulation On Data Management And Payment Systems For Electricity And Gas

By letters dated 12 and 22 April 2011, the Ministry of Economic Affairs, Agriculture and Innovation asked the Dutch Competition Authority (NMa) to investigate the feasibility and enforceability of a draft regulation on data management and payment systems for electricity and gas.

NMa website, 04/07/11

Feasibility And Enforceability Study Of Draft Order On Gas Security Of Supply

The adoption of Regulation (EU) 994/2010 of 20 October 2010, concerning measures to safeguard security of gas supply, led to the proposal of some amendments to the Gas Act.

NMa website, 15/07/11

Feasibility And Enforceability Study Of Disconnection Policy For Small Consumers Of Electricity And Gas

By letter dated 20 April 2011, the Ministry of Economic Affairs, Agriculture and Innovation asked the Dutch Competition Authority (NMa) to investigate the feasibility and enforceability of draft regulations containing rules about disconnection of small-scale consumers of electricity and gas.

NMa website, 25/07/11

Portugal

Portuguese Government Eliminates State’s Special Rights In EDP

The Portuguese government has approved a decree to eliminate the special rights, or “golden shares”, in EDP held by the state, in accordance with the reform program and economic adjustments signed in April 2011 with the European Union. According to the European Union, these special rights were incompatible with effective competition and the freedom of movement of capital. In addition, the Portuguese government has also announced its intention to privatise any assets it currently owns in EDP.

Sapo, 05/07/11; Economics News Paper, 29/07/11

New Steps Towards Portuguese Energy Market Liberalization

According to a resolution approved by the Portuguese government, regulated tariffs in the electricity and gas retail market will be eliminated from January 2013. The first steps towards complete market liberalisation include the removal of regulated tariffs for final electricity consumers whose contracted power is equal to or greater than 10.35 kVA, and for final natural gas consumers whose annual consumption does not exceed 10,000 cubic metres. Moreover, a social tariff for the sale of natural gas to economically vulnerable consumers is to be adopted, similar to the electricity market's social tariff. In addition, according to the new electricity sector rules published by the regulator, Portuguese consumers may now change their electricity supplier an unlimited number of times per year, as opposed to the maximum number of four supplier changes per year set in the previous regulation.

Sapo, 27/07/11; UOL Notícias Economia, 28/07/11

Russia

Gazprom To Merge Power Assets With Renova

The Russian state-owned gas giant Gazprom signed a memorandum of understanding with privately owned Renova Group on merging their respective power generation assets into a single open joint stock company. The merger will create the Russia's largest generation company with more than 50GW of installed capacity. In this new generation company, Gazprom will own 75% less one share and Renova will own 25% plus one share.

Gazprom press release, 07/07/11; Global Insight, 07/07/11

E.ON And Enel Commissioned New Generation Capacity In Russia

E.ON commissioned two 400 MW units in the Surgutskaya GRES 2 plant in Russia. Almost at the same time, Enel commissioned the 410 MW combined cycle gas unit in the Sredneuralsk power station. E.ON owns 78.3% of the Russian generation company formerly known as OGK-4, whereas Enel has 56.4% share of the OGK-5. Official commissioning of the Enel's new plant was slightly delayed because OGK-5 could not obtain a separate permit for the new unit on time. The delay resulted in a fine of "several tens of millions of roubles" (10 million roubles = US$360,000) imposed by the Russian government for not meeting investment obligations in due time. The Prime Minister tried to smooth over the incident, expressing hope that Enel was not offended by the "symbolic" fine imposed on the company. Enel representatives assured him that "no offence was taken".

Moscow Times, Global Insight, 26/07/11

Spain

Government Drafts The New Hydrocarbons Law

The Spanish government has approved a draft Hydrocarbons Law, which transposes the European Directive on common rules for natural gas markets. The law creates the figure of the “vulnerable natural gas consumer”, and empowers the Ministry of Industry to set special conditions for the supply of gas to these consumers. In addition, the law assigns new functions to the Energy Regulator (CNE) in setting the access tariffs and extends its powers to impose fines. The draft law still has to be endorsed by the Parliament.

Agencia EFE, 01/07/2011; La Gaceta, 01/07/11

Spanish National Court Supports Decision To Close Garoña Nuclear Plant In 2013

The Spanish National Court dismissed appeals against the Ministerial Order issued by the Ministry of Industry ordering the closure of the Santa María de Garoña nuclear power plant on July 2013, instead of 2019 as approved by the Nuclear Safety Council. In addition, the National Court has stated that the plant owners are not entitled to compensation for the closing of the plant in 2013.

El País, 14/07/11; El Diario de Burgos, 15/07/11

Ministry Of Industry Restitutes Premia Suspended By Regulator To Photovoltaic Installations

The Ministry of Industry has decided provisionally to reinstitute the premia whose payment to 1919 photovoltaic installations the Spanish Energy Regulator (CNE) had suspended. The investigation carried out by the regulator concluded that these installations committed fraud by reporting a false date of entry into operation in order to perceive higher premia. However, upon analysing the allegations presented by the affected parties, the Ministry considered that 95% of the suspensions issued by the regulator were not justified. Hence, all the installations will continue to receive the premia until the process is resolved.

Energías Renovables, 19/07/2011; Cinco Días, 20/07/11

Turkey

Renewal Of Contract For The Blue Stream Pipeline Faces Trouble

In the middle of July, the Turkish Energy Minister, Taner Yildiz, said Turkey was in negotiations with Gazprom about extending a contract for the import of 6,000 million cubic metres of gas a year through the Blue Stream pipeline, one of Turkey's two gas lines from Russia. However, the minister later stated that Russia's Gazprom had rejected the plans to privatise contracts to import Russian natural gas on the Blue Stream pipeline. The problems appear to stem from Gazprom viewing the contract as an intergovernmental agreement between Russia and Turkey.

Interfax, 14/07/11; Platts, 19/7/2011; **uk.reuters.com**, *20/07/11;* **themoscowtimes.com**, *22/07/11*

NORTH AMERICAN NEWS

US

FERC To Comply With President's Executive Order

The Federal Energy Regulatory Commission (FERC) said it would implement an executive order from President Barack Obama directing it, and other independent agencies, to seek public participation on plans to assess and streamline federal regulations. The executive order requires the agencies to develop a plan for periodically reviewing existing regulations and to make those plans public within 120 days.

www.ferc.gov, *11/07/11; Natural Gas Intelligence, 18/07/11*

CPUC Issues Decision On Alternative Fuel Vehicles

The California Public Utilities Commission (CPUC) decided to prohibit electric utilities from building, owning, and operating the electric and hybrid vehicle charging stations to be used by their customers. The unanimous decision is an effort by the CPUC to encourage multiple market participants to compete to provide the best services and prices. Further, the CPUC has directed electric utilities to collaborate with automakers and other stakeholders to identify where electric vehicle charging is likely to occur and to plan accordingly. The CPUC reviewed the current residential, commercial, and industrial rates, and confirmed that they are sufficient in the early electric vehicle market. The CPUC also established a process to develop a metering protocol. Additionally, costs of distribution or service facility upgrades will be spread across all rate payers until 30 June 2013.

SNL Energy, 14/07/11; CPUC website, 14/07/11

FERC Deems NIST Interoperability Standards Not Ready For Rulemaking Proceeding

The Energy Independence and Security Act of 2007 directed Federal Energy Regulatory Commission (FERC) to institute a proceeding to adopt the standards and protocols needed to insure smart-grid functionality and interoperability once there is sufficient consensus. In October 2010, the National Institute of Standards and Technology (NIST) proposed the first five standards focusing its initial efforts on demand response and energy efficiency, cyber security, network communications, electric transportation, and advanced metering infrastructure. On 19 July, FERC decided that there is not sufficient consensus for the smart grid interoperability standards proposed by NIST and as a result it will not institute a rulemaking proceeding at this time. In the order, FERC agreed with commenters' concerns with cyber security deficiencies and potential unintended consequences from premature adoption of the standards.
SNL Energy, 19/07/11; FERC website, 19/07/11

FERC Revises Transmission Planning And Cost Allocation Requirements

On 21 July, the Federal Energy Regulatory Commission (FERC) issued Order No. 1000 reforming the earlier FERC Order No. 890 and establishing the Commission's transmission planning and cost allocation requirements for public utility transmission providers. Order No. 1000 removes the incumbent utilities' federal right of first refusal for transmission facilities, but adds certain exemptions, such as upgrades to existing transmission facilities or any proposed transmission projects that have not been selected as part of a regional transmission plan for cost allocation purposes. Additionally, the new rule offers further clarifications and guidance on how regions can develop processes to consider public policy requirements when initiating a transmission plan. Each public utility transmission provider is required to make a compliance filing with FERC within 12 months of the effective date of the rule.
SNL Energy, 21/07/11; FERC website, 21/07/11

Ruby Begins Service

The Federal Energy Regulatory Commission (FERC) has granted a request from El Paso Corp to put the Ruby pipeline into operation. It increases the regional capacity to move gas from the Rockies region to the West Coast markets. Initial scheduled volumes on the pipeline for the initial gas day of 28 July were expected to be about 65 MMcf/d (million cubic feet per day), or about 5% of the total initial capacity of 1,500 MMcf/d. In a related development, FERC approved Ruby's requests to revise upward its initial rates for firm long-term transportation service to recover anticipated higher project costs, and to revise its initial in-kind fuel retention rate downward to reflect an expected decrease in projected fuel consumption.

Platts Commodity News, 28/07/2011; Natural Gas Intelligence, 01/08/11

ASIA PACIFIC NEWS

Australia

Final Report Released On Review Into The Use Of Total Factor Productivity

The Australian Energy Market Commission (AEMC) has published its final report on the review into the use of total factor productivity (TFP) for the determination of prices and revenues. The AEMC found that while a TFP-based methodology could improve regulation of electricity and gas networks, more consistent and robust data is needed before implementation can be considered. The AEMC is currently proposing initial rules to facilitate data collection. Once sufficient data is collected, the Ministerial Council on Energy (MCE) will then assess whether a TFP-based methodology should be introduced.

AEMC website, 07/07/11

New Initiatives For Electricity Generation Sector

The Australian government announced two significant new initiatives for the energy sector as part of its launch of the 'clean energy future' plan. The first of these is the Energy Security Fund, which includes three schemes designed to support the electricity sector, namely: (1) payment for closure; (2) assistance for strongly-affected generators; and (3) loan support. The second initiative is the establishment of a new Energy Security Council, which will provide advice to the government on energy security risk support measures. The Council will consist of energy and financial market experts, and energy market bodies.

Minister for Resources and Energy website, 10/07/11

Carbon Price Announced

The Australian government has announced its carbon price policy as part of its “clean energy future” plan. It will commence on 1 July 2012. The first three years will operate as a fixed price period, with the price being A$23 per tonne of pollution and increasing annually by 2.5% in real terms. On 1 July 2015, the pricing mechanism will switch to an emissions trading scheme, with a market price being set.

Prime Minister of Australia website, 10/07/11

Draft Rule Released For The Application And Operation Of Administered Price Periods Rule Change Proposal

The Australian Energy Market Commission (AEMC) released a draft Rule determination for the Application and Operation of Administered Price Periods Rule Change Proposal. The purpose of the Rule changes is to remove the ambiguity surrounding the application and operation of Administered Price Periods triggered by high ancillary service prices.

AEMC website, 21/07/11

Smart Meter Costs And Charges Draft Determination

The Australian Energy Regulator (AER) has issued its draft determination on budget and charges applications for the Victorian Advanced Metering Infrastructure (“smart meter”) Review 2012 to 2015. The AER has estimated the total smart meter budget for the Victorian distribution network service providers (DNSPs) to be A$760 million (approximately US$834 million) for this roll-out period, which is 39% less than proposed. Charges are to increase by 20.3% on average between 2011 and 2015. The AER is to make its final determination at the end of October 2011.

AER website, 28/07/11

New Zealand

Proposed Adjustments To Electricity Distribution Services Prices

The Commerce Commission (the Commission) has published a draft decision paper on the 2010-15 Default Price-Quality Path for Electricity Distribution. The paper proposes to implement new input methodologies for 16 electricity distribution business from 2012 to 2015. The input methodologies will result in price adjustments varying between a 20% increase and a 10% decrease. The Commission is currently accepting submissions, with the final decision to be made by 20 October 2011.

Commerce Commission website, 19/07/11

China

East China Faces Severe Power Shortages

Electricity shortages led power providers to announce rationing in Shanghai, Zhejiang, and Jiangsu. The head of East China Electricity Regulatory Bureau said Eastern China is likely to face a power shortage of 10-15 million kilowatts during the high summer in 2011. On 4 July, the daily power load in East China hit a record high of 168 GW.

chinadaily.com, *14/07/11; Asia Pulse, 18/07/11*

NEA To Regulate On Inland Wind Power Projects

According to the China Securities Journal, the National Energy Administration (NEA) is soon to issue management rules for inland wind power development. The NEA is set to reclaim approval power for such projects from provincial-level authorities. Before the new rules come in, local governments have approved a number of inland wind power projects each with installed capacity of nearly 50 million kilowatts. This was neither in accordance with China's national development plan for energy nor with China's power network planning, and resulted in difficulty for inland wind farms in getting access to the power network. Some sources believe the move may slow down the speed of approval for inland wind power.

Asia Pulse, 20/7/11; Xinhua Business Weekly, 25/07/11

India

Indian Government Exempts All Hydro Projects From Competitive Bidding Until December 2015

In addition to hydro projects, the intra-state transmission sector was exempted from the mandatory competitive bidding for another two years up to 15 January 2013. Under tariff-based competitive bidding, power projects are awarded on the basis of best tariff offered by competing companies. Tariff-based competitive bidding for the allocation of projects was introduced at the beginning of the year.

Indianexpress.com, *01/07/11; Asia Pulse, 05/07/11*

National Thermal Power Corporation Shuts Down 2,000 MW; Power Crisis Likely

The Orissa government asked the state-run NTPC to shut down two additional units of 500 MW each. The power utility major had already shut down two of its 500-MW units in the state at Kanhia, near Talcher due to its faulty fly ash programme. Observers stated that the reduction of supply is likely to lead to a power shortage.

The Economic Times, 05/07/11; thinkindia.net.in, *06/07/11*

Regulator Authorizes Rs 125 Billion Gas Grid Projects For Gujarat State Petronet

The state-run Gujarat State Petronet received final authorization from India's gas regulator Petroleum and Natural Gas Regulatory Board (PNGRB) to lay 4,000 km of pipelines on three routes, at an investment cost of Rs 125,000 million (US$2,800 million).

Reuters.com, *08/07/11; India Energy News, 11/07/11*

Power Tariff To Rise In Jharkhand

The Jharkhand State Electricity Regulatory Commission decided to allow a hike in the power tariff in the Jharkhand by 18.5% from 1 August. The Jharkhand State Electricity Board had asked for a hike of 100%.

telegraphindia.com, *22/07/11; The Hindu, 27/07/11*

Power Prices Set To Rise In Assam

The Assam Power Distribution Company Ltd (APDCL) proposed to raise tariffs by 56 paise per unit (US$0.013) from 1 August. A representative from APDCL said the realization of this additional amount had become necessary due to the rise in prices of natural gas put into effect by the government of India.

Assam Tribune, 23/07/11; timesofindia.indiatimes.com, *24/07/11*

Pune: Power Prices To Increase For The Fifth Time In 10 Months

In September, power prices are set to rise in Pune by 20-25 paise a unit (US$0.0056) as the Maharashtra State power Generation Company is set to recover 7,600 million Rupees (US$160 million) from the Mahashtra State Electricity Distribution company, partly to fund capital expenditure on new generation units.

The Hitavada, 27/07/11; The Times of India, 28/07/11

MERC Proposes Cross-Subsidy Surcharge

The Maharashtra Electricity Regulatory Commission (MERC) proposed on Friday to levy a cross-subsidy surcharge on the consumers of Reliance Infrastructure (RInfra) who have shifted to Tata Power. It would also allow RInfra to recover charges against its regulatory assets from those consumers. The commission said that the surcharges will be applicable from the date of migration and would affect about 100,000 consumers (mostly commercial).

The Times of India, 30/07/11; Hindustan Times, 30/07/11

Indonesia

Indonesia Still To Proceed With Nuclear Power Plant Project

The Head of the Technology and Information Center of the National Nuclear Energy Agency (BATAN), stated that the nuclear power plant project in Indonesia's Bangka Belitung (Babel) province would proceed, based on existing plans, to meet the need for electricity in Sumatra, Java, and Bali, and stated that the plans were central to the government.

Jakartaupdates.com, *07/07/11; Asia Pulse, 02/08/11*

Philippines

Philippines' Energy Regulator Allows Manila Electric To Issue Bonds

The Philippines' Energy Regulatory Commission (ERC) announced that it has allowed the large power distribution company, Manila Electric Co. (Meralco), to issue bonds under certain conditions. The ERC said it has permitted Meralco to issue debt securities provided the debt is not more than half the power distributor's equity;

Dow Jones International News, 27/07/11; mb.com.ph, *30/07/11*

About Our Practice

NERA is at the forefront of the continuing transformation of energy industries worldwide. Our experts have developed approaches for introducing competition in segments such as power generation, where competition is workable, and for improving the regulation of sectors where it is not. We work with companies and governmental bodies worldwide to design competitive power markets and to develop tariffs and rules of access for regulated transmission and distribution systems for electricity and gas and transport of oil and oil products. With industry restructuring, we also help companies develop strategies for exploring new opportunities and minimising new risks, including issues related to climate change and other environmental initiatives.

NERA helps our clients to develop new regulatory strategies and, when needed, support our clients with analysis and testimony before regulatory commissions, antitrust and competition policy agencies, and domestic and international courts. Our economists help clients to decide which lines of business to pursue; to divest assets no longer consistent with their strategy; to identify and evaluate opportunities for mergers, acquisitions and investment; and to develop bidding, trading, contracting, and marketing strategies and organisations. Our work also includes designing and conducting energy auctions and providing strategy and valuation advice on mergers and acquisitions, the financing of energy companies, and the financial restructuring of distressed companies.

About NERA

NERA Economic Consulting (**www.nera.com**) is a global firm of experts dedicated to applying economic, finance, and quantitative principles to complex business and legal challenges. For half a century, NERA's economists have been creating strategies, studies, reports, expert testimony, and policy recommendations for government authorities and the world's leading law firms and corporations. With its main office in New York City, NERA serves clients from more than 20 offices across North America, Europe, and Asia Pacific.

Subscribe

NERA produces two newsletters that report and analyse energy matters around the world. *Energy Regulation Insights* summarise NERA's views on the economics behind topical developments in energy sector regulation. Previous issues have discussed regulators' use of "benchmarking", unbundling of networks, regulation of pipelines for CO_2 and other gases, and competition policy in electricity markets. The *Global Energy Regulation* Newsletter compiles brief summaries of news stories about energy regulation around the world. The coverage includes network regulation, industry restructuring, and the organisation of electricity and gas markets. The "GERN" allows energy sector professionals to easily keep in touch with looming problems, the latest developments in regulatory methods, and innovative solutions. To view the latest editions or to receive our newsletters each time they are published, click here: **www.nera.com/newsletters.asp**.

NERA
Economic Consulting

Office Contacts

EUROPE

London
15 Stratford Place
London W1C 1BE
Tel: +44 20 7659 8500
Fax: +44 20 7659 8501
Contact: Graham Shuttleworth

Rome
Via Basento 37,
2nd Floor
00198 Rome, Italy
Tel: +39 06 488 8101
Fax: +39 06 485 838
Contact: Francesco Lo Passo

Madrid
Calle Goya 24, 6ª Planta
28001 Madrid, Spain
Tel: +34 91 212 6400
Fax: +34 91 521 7876
Contact: Oscar Arnedillo

North America

White Plains
50 Main Street, 14th Floor
White Plains, New York 10606
USA
Tel: +1 914 448 4000
Fax: +1 914 448 4040
Contact: Jeff Makholm (Boston),
Gene Meehan (Washington DC)

Australia

Sydney
Darling Park Tower 3
201 Sussex Street
Sydney NSW, 2000
Australia
Tel: +61 2 8864 6500
Fax: +61 2 8864 6549
Contact: Greg Houston, Ann Whitfield

Additional NERA Offices

Auckland, New Zealand	+64 9 373 7230
Beijing, China	+86 10 6533 4395
Boston, MA	+1 617 927 4500
Brussels, Belgium	+32 2 282 4340
Chicago, IL	+1 312 573 2800
Denver, CO	+1 303 465 6844
Frankfurt, Germany	+49 69 710 447 500
Geneva, Swtizerland	+41 22 819 94 94
Ithaca, NY	+1 607 277 3007
Los Angeles, CA	+1 213 346 3000
Melbourne, Australia	+61 3 9623 9800
New York, NY	+1 212 345 3000
Paris, France	+33 1 45 02 30 00
Philadelphia, PA	+1 215 864 3880
San Francisco, CA	+1 415 291 1000
Shanghai, China	+86 21 6335 3358
Tokyo, Japan	+81 3 3500 3290
Toronto, Canada	+1 416 783 3355
Washington DC	+1 202 466 3510
Wellington, New Zealand	+64 4 474 1320

Disclaimer: the information contained in this document is publicly available. It does not incorporate NERA research.

For further information, please visit our global website at:
www.nera.com